



Director of
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Intelligence

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National Intelligence Daily (Cable)

1 March 1979

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SITUATION REPORTS

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CHINA-VIETNAM-USSR

Radio Hanoi yesterday claimed that Vietnamese troops had driven back three Chinese armored columns in heavy fighting around Lang Son, but we cannot confirm this report. We believe that Vietnamese forces there are badly outnumbered;

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//Economic disruptions in China due to war preparations are still not significant but are increasing.

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The immediate threat to the economy is a possible excess demand for transport, which could hamper industrial production. Energy supplies are particularly vulnerable, as coal and petroleum account for over 40 percent of all railroad freight tonnage. Usual peak demand for transport begins in April with good weather and the early grain harvest.

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//The war at this point is not expected to be a serious constraint on China's plans for modernization. China has formulated contingency plans, however, for evacuating the thousands of foreign technical personnel stationed there.// [REDACTED]

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Vietnam yesterday categorically rejected the Chinese call for negotiation of their border differences, dismissing it as a "farce." The article concluded with a demand for an "immediate, total, and unconditional" Chinese withdrawal. Another commentary, broadcast by Hanoi in Cambodian, took a harsher tone in dismissing the Chinese offer for negotiations and pledged that Vietnam will fight until the last Chinese soldier is driven out. [REDACTED]

In another commentary yesterday, the Vietnamese criticized the UN Security Council resolutions now under consideration, and in particular the ASEAN proposal (not specified by name) as part of a "careful propaganda orchestration between imperialism and the Beijing aggressors." Hanoi thanked the USSR, Czechoslovakia, Poland, Cuba, and India for their support in the UN. [REDACTED]

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In his Supreme Soviet election speech yesterday, party ideologue Suslov repeated many of the points made previously by his Politburo colleagues. He reaffirmed the USSR's intentions to stand by its commitments to Vietnam under the friendship treaty with Hanoi and called for the withdrawal of Chinese troops. US or Western "connivance" with Beijing was not mentioned, but Suslov warned that "the danger to international detente. . . is growing" because the Chinese leadership has "merged" with the forces of "international reaction" and "militarism." [REDACTED]

The authoritative *Pravda* article yesterday by "I. Aleksandrov" was harsher than any of the leadership statements on the subject of tacit US approval of Beijing's attack on Vietnam but nevertheless acknowledged that no Western governments--including the US--had "publicly" approved China's actions. [REDACTED]

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The main thrust of the Aleksandrov piece was its warning that the flames of war may ultimately engulf

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those now willing to place on a par "the Chinese aggressor with its victim." The article's preoccupation with rebutting China's justification for its move against Vietnam suggests Moscow was also concerned that its own version of events is not being received well abroad. [REDACTED]

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The pseudonym Aleksandrov is indicative that Politburo-level officials approved the article, but it does not mean that a Politburo member authored the article or that the article is an official leadership statement. Rather, it may reflect underlying concerns within the leadership. The US Embassy in Moscow notes that the differences between the speeches of Politburo members and the Aleksandrov article regarding the US could reflect differences within the leadership toward an alleged US role in the Chinese attacks. President Brezhnev will make the final--and obviously most authoritative--election speech on Friday. [REDACTED]

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Initial Soviet press comment on the President's press conference on Tuesday acknowledges that he has disapproved Chinese action against Vietnam, but takes him to task for calling the Chinese move a mere border crossing and cites alleged US political observers who point out that this is tantamount to indirect encouragement of the Chinese invasion. [REDACTED]

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IRAN

Prime Minister Bazargan's government is attempting to revitalize three critical areas of the economy--oil, trade, and banking--where inactivity has kept the economy paralyzed for months. Increasing political splintering, however, poses a serious threat to the government's efforts.

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The new head of the National Iranian Oil Company--Hassan Nazih--traveled to the center of the nation's oil industry to put his imprimatur on efforts to get oil workers to resume production. Most oil company employees have returned, but a hard core of leftists remains on strike and debate continues on future oil policy. Nazih announced that exports will resume on Monday but did not indicate at what level. While his deputy at the oil company indicated that a production level of 1.5 million barrels per day is all that can be expected in the near term, Nazih has talked of plans for future production of about 3 million barrels per day. This would be just under half the prestrike level.

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Customs employees also are returning to work, and some major ports are operating on a 24-hour-a-day schedule. The government reportedly has decided to waive storage charges for the period of customs administration inactivity and will allow import duties to be paid on an installment basis. This could help Iranian industries heavily dependent on imports secure clearance of needed goods at a time when the industries would have difficulty meeting storage or duty fees.

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they are so badly clogged that it will take three to four months to clear them.

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Bazargan has appointed an experienced economist to head the Central Bank. Although most bank personnel have returned to their offices, many still spend most of their days in political meetings. The bank has been a center of leftist activity, and its staff has refused to allow the release of any foreign exchange payments. This has crippled the rest of the banking sector and interfered with scheduled imports.

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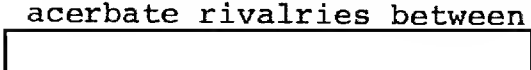
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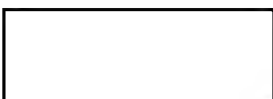
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The government's efforts to get the economy functioning are hindered by deepening splits within Iranian society. Young radicals, for example, clearly resent and may well resist government attempts to rely on the bureaucracy of the former government. Attempts to integrate members of the revolutionary committees with staffs currently manning government offices may exacerbate rivalries between the two groups.



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BRIEFS AND COMMENTS

TANZANIA-UGANDA: Military Situation

//Tanzanian forces have completed the occupation of the Ugandan towns of Masaka and probably Mbarara. Further advances now appear to hinge on the Tanzanians' encouragement of Ugandan exiles to form a "provisional government" that would request Tanzanian help in bringing down Ugandan President Amin. Such a government would face the same divisiveness and tribal jealousies that have undermined Uganda's previous institutions.

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Amin's position has been seriously weakened by the military reverses in the south. There are numerous reports of desertions and insubordination in the Army--the key prop of the regime. With the support of loyal units and the increased security measures he has imposed in Kampala, Amin still may be able to hold on for some time. He is, in the meantime, casting about for foreign support for Uganda's military effort or to promote a mediated settlement.

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Japan: Southeast Asian Policy

In the wake of Vietnam's intervention in Kampuchea and China's invasion of Vietnam, Japan is trying to maintain its ties with Vietnam without jeopardizing its more important relations with the non-Communist states of Southeast Asia, which are alarmed by Hanoi's actions. Japan is also attempting to avoid openly taking sides in the Sino-Vietnamese border war.

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Japan has decided to honor its present aid pledges to Vietnam, but it is "reviewing" its aid program for the fiscal year that begins on 1 April to register its displeasure with Hanoi. The Japanese have not taken further action for fear of upsetting the overall arrangements that underlie normalization of relations, including the Vietnamese agreement last year to assume the debts owed Japan by the former South Vietnamese Government. Japan has supported the diplomatic approach taken by non-Communist Southeast Asian states to the Vietnamese-Kampuchean conflict and has also doubled its aid to Thailand as a gesture of reassurance.

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Japan has been careful to balance its criticism of China's actions in Vietnam with criticism of Vietnam's campaign in Kampuchea and has resisted Beijing's efforts to persuade it to censure Vietnamese actions under the anti-Soviet "antihegemony" clause of the Sino-Japanese peace and friendship treaty. Tokyo is unwilling to let the Chinese invasion of Vietnam affect its economic ties with Beijing, given its current difficulties in negotiating long-term projects with China. Vietnam, however, is likely to protest strongly what it perceives as Japan's tolerant approach to China, Tokyo's far more important economic partner.

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SPAIN: Election and Economics

Spain's economic policies will be heavily influenced following today's legislative election by the balance between Prime Minister Adolfo Suarez' Center Democrats and the Socialists under Felipe Gonzalez. The Socialists are pushing for more expansionary policies than Suarez wants. The postelection government will shape important legislation affecting the budget, labor and tax reform, energy policy, and regional autonomy. [REDACTED]

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Economic issues will be a major source of contention even if the two major parties try to arrange some type of pact to govern Spain. The highly visible success of the austerity measures in the Moncloa Pact of last year in slowing inflation and bringing the current account into surplus--at the painful cost of rising unemployment--has brought the need for further austerity into question and undermined consensus policymaking in the economic area. Labor, management, and the government could not agree on a new social pact for 1979. The government then enacted a decree limiting 1979 wage hikes, but the outlook for limiting wage hikes this year is not very favorable, and already nearly half a million workers have staged strikes. [REDACTED]

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If the Union of the Democratic Center is returned to power, Spain would probably continue generally on its present economic course, although it will miss some of its 1979 targets; real GNP growth would slip below the planned 4.5 percent because of overly optimistic expectations for private investment, and the current account may register a deficit of as much as \$1 billion rather than the forecast zero balance. Also, the inflation rate is unlikely to decline to the targeted 10 percent. [REDACTED]

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A tilt to the left at the polls, followed by higher wage settlements and more government spending, would change results considerably. Real growth targets could be reached on the strength of increased public and private consumption and public investment, but at the cost of accelerating inflation and a larger current account deficit.

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INDONESIA: Oil Prices

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Indonesia does not intend to raise oil export prices unilaterally before OPEC's next scheduled price increase on 1 April, despite recent price hikes by several other nations. The government has decided to increase prices only if OPEC agrees to do so before April. To better understand current and near-term oil market prospects, Oil Minister Wijarso is considering a trip to Japan, Western Europe, and the US early this month.

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